LAND DEVELOPMENT STRATEGY: BUSINESS STRUCTURE ALTERNATIVES

ULI Fall Meeting

Large Landowners Forum

Gregg Logan, Managing Director, RCLCO

50 1967 2017 THE BEST MINDS IN REAL ESTATE

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HOW LANDOWNERS DO DEALS WITH DEVELOPERS

PRESENTATION OVERVIEW

- Large land owners have the property, developers have knowledge, experience, access to capital
- Pros and cons of various deal structure alternatives?
- Key considerations when deciding
  - Sell
  - Participating in deal
  - Form a joint venture
  - Self develop
- What are the potential rewards and risks associated with pursuing one strategy versus another?
- Examples

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IS THERE A MARKET? WHAT ARE OWNERSHIP'S GOALS? WHAT ARE THE DISPOSITION OPTIONS?

MARKET OPPORTUNITY

- Market Study, Feasibility Analysis
- Financial Model/ Valuation

OWNERSHIP'S GOALS

- Risk Tolerance
- Desired Control
- Expertise, Capital
- Financial Commitment
- Timing
- Tax Implications

EVALUATE STRUCTURE OPTIONS

- Property Sale
- Sale With Participation
- Joint Venture
- Direct Ownership / Development
- Other

WHO DO WE SELL TO OR PARTNER WITH? HOW TO EVALUATE PROSPECTS? HOW TO SELECT?

IDENTIFY PROSPECTS

- Active in Your Market
- ULI
- Professional Services Team Referral
- RFQ, RFP

EVALUATE PROSPECTS

- Introductions, Information, Interviews, Tours
- Ranking Based on Best Fit

BUYER / PARTNER SELECTION

- Term Sheet
- Negotiations
- Legal

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EVALUATING STRUCTURE ALTERNATIVES

LOWER RISK HIGHER

LOWER DEVELOPMENT CONTROL HIGHER

DEAL STRUCTURE	AS-IS PROPERTY SALE	SALE W/ PARTICIPATION	JV PARTNERSHIP	DIRECT OWNERSHIP
Description	Sale of bulk acreage for a determined price (takedowns?)	Sell property (takedowns?); potential revenue participation	Contribute land into development partnership as limited partner	Create/purchase/ hire development company
Risk bearer	Developer	Developer mostly; some Land Owner	Both members	Land Owner
Distributions	Land Owner only receives purchase price amount	Base price for land plus participation	Based on success of project; negotiated	Based on success of project
Land Owner Development Control	None	None	As limited partner, based on negotiated deal	Total control

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STRUCTURE ALTERNATIVES CASH FLOW

LOWER **RISK** HIGHER

LOWER **FINANCIAL RETURNS** HIGHER

DEAL STRUCTURE	AS-IS PROPERTY SALE	SALE W/ PARTICIPATION	JV PARTNERSHIP	DIRECT OWNERSHIP
Land Sale/ Contribution	Sale of bulk acreage for a finite price; single sale or a series of takedowns	Sell property (takedowns?); funds directly from developer or as % of project revenue	Contribute land into development partnership as limited partner	No cost of land; significant development costs
Development Costs	Developer responsibility	Developer responsibility	Developer responsibility; negotiable	Land Owner responsibility
1st Profit Distribution	None to Land Owner	% of revenues to Land Owner	Return of equity to members	All profits/losses to Land Owner
2nd Profit Distribution	None to Land Owner	Return of equity Developer	Possible developer pref	
3rd Profit Distribution	None to Land Owner	Remaining cash to Developer	Negotiated distributions	

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RCLCO LESSONS LEARNED

3 COMPONENTS OF LARGE LAND DEALS

- Land (Difficult to Value)
- Cash
- Talent

RISK

- Deals should be structured around risk profile and organizational capacity/goals

LARGE LANDOWNERS

- Often choose joint venture or direct ownership options
- Direct ownership has proven challenging
- Good examples of developer partnerships

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EXAMPLE: OUTRIGHT PROPERTY SALE

DEAL FUNDAMENTALS

- Sell a large acreage parcel
- Challenge: developer economics may not make single large purchase a reality
- Difficult to properly value land over long time horizon
- Negotiations typically turn to takedown schedule, participation, or JV
- Outright land sales for large acreage are rare because the large upfront costs undermine Developer economics and land is hard to value

LANDOWNER DEVELOPMENT RESPONSIBILITIES/CONTROL

- None

LANDOWNER RISK

- Limited

LANDOWNER FINANCIAL UPSIDE/TIMING

- No upside beyond the agreed upon sale terms
- Cash flow upfront

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EXAMPLE: PROPERTY SALE – TAKEDOWNS

DEAL FUNDAMENTALS

- For example: transaction on 5,000 acres
- Land sale in fixed schedule of takedowns
- Each takedown with 20% deposit; interest paid on balance

LANDOWNER DEVELOPMENT RESPONSIBILITIES/CONTROL

- Land closing contingent upon gaining entitlements
- No development responsibilities

LANDOWNER RISK

- Limited; must earn entitlements

FINANCIAL UPSIDE/TIMING

- No upside beyond the agreed upon sale terms
- Cash flow upfront

EXAMPLE: PARTICIPATION

DEAL FUNDAMENTALS

- Example: 5,000 acres
- Sale of property
- Series of relatively equal takedowns after entitlements
- Initial Takedown: Base per acre appraised value
- Subsequent Takedowns: 3% inflation
- Additional Purchase Price
- 20% of Gross Sales once amount exceeds takedown payments
- Less commissions and closing costs

LANDOWNER DEVELOPMENT RESPONSIBILITIES/CONTROL

- None

LANDOWNER RISK

- Limited risk due to guaranteed takedowns

LANDOWNER FINANCIAL UPSIDE/TIMING

- Participation in % of gross sales; but not back end distributions
- Some upfront cash flow from takedowns; potential for ongoing cash flow from revenues

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EXAMPLE: JOINT VENTURE 1

DEAL FUNDAMENTALS

- Example: 5,000 acres venture with developer
- Form a Joint Venture LLC
- Governed by an Executive Committee and Overall/Annual Business Plans, equal representation
- Contributions
  - Landowner contributes land to venture
  - Developer responsible for project costs
- Distributions
  - % of revenues to landowner
  - Developer return of capital
  - 50/50 split of remaining cash flow

LANDOWNER DEVELOPMENT RESPONSIBILITIES/CONTROL

- Developer acts as Managing Member
- Landowner to have voice in major decisions

LANDOWNER RISK

- Medium-high

LANDOWNER FINANCIAL UPSIDE/TIMING

- Earliest cash flows linked to gross revenues; only start when sales start
- Split of upside distributions could be significant but occur later in the life of the project

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EXAMPLE: JOINT VENTURE 2

DEAL FUNDAMENTALS

- 5,000 acres
- Joint Venture LLC
- Contributions
  - Landowner contributes land as equity
  - Developer responsible for ongoing project costs
- Distributions
  - Proportionate return of equity until Landowner land contribution is made whole
  - 60/40 to Landowner of remaining distributions

LANDOWNER DEVELOPMENT RESPONSIBILITIES/CONTROL

- Developer acts as Managing Member
- Landowner to have voice in major decisions

LANDOWNER RISK

- High

LANDOWNER FINANCIAL UPSIDE/TIMING

- Earliest cash flows only from positive project cash flow
- Split of upside distributions could be significant but occur later in the life of the project

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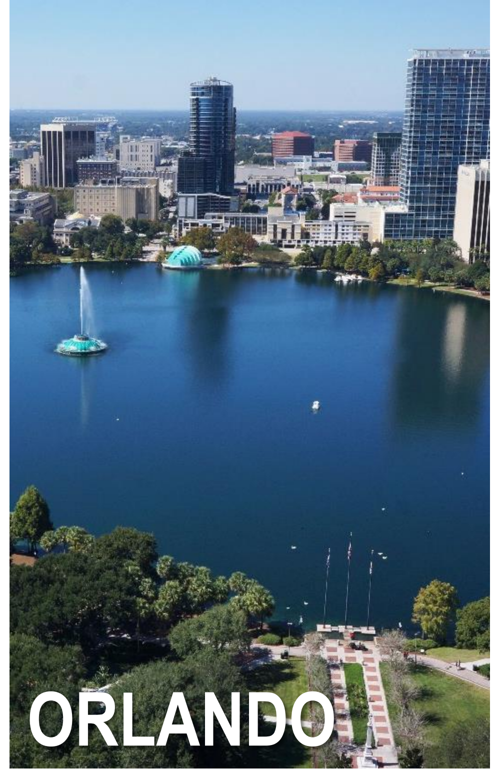
221 W 6th St
Suite 2030
Austin, TX 78701

11601 Wilshire Blvd
Suite 1650
Los Angeles, CA 90025



964 Lake Baldwin Ln
Suite 100
Orlando, FL 32814

7200 Wisconsin Ave
Suite 1110
Bethesda, MD 20814

RCLCO
REAL ESTATE ADVISORS

Gregg Logan
Managing Director
P: (407) 341-4859
E: GLOGAN@RCLCO.COM
W: RCLCO.COM